

18 Industry benchmarks

CHAPTER 18

INTRODUCTION

In recent years, the ATO has worked with community groups, industry representatives and tax practitioners on a range of activities. These activities are aimed at maintaining the integrity of the tax system, encouraging and improving record keeping practices among businesses, and reducing compliance costs for businesses. Providing industry benchmarks in the form of financial ratios and activity statement ratios is one such activity.

In providing benchmarks, the ATO aims to have a more direct impact on taxpayer behaviour before tax returns are prepared and lodged.

The benchmarks help tax advisers identify averages for groups of activities and, therefore, businesses that vary significantly from those averages. Tax advisers can use this information to determine the reasons for any variation and identify action that should be taken to correct problems and improve business practices – in particular, those related to record keeping.

The business community and business owners generally use benchmarks to compare the performance of their business with industry averages. The business community may also use these ratios when evaluating job tenders. The gross profit and net profit ratios of a business compared to the industry average may be one factor taken into account in deciding whether a particular tender is successful.

FINANCIAL RATIOS

Financial ratio data related to gross profit, net profit and wages to turnover provides useful indicators of business activity and performance for tax practitioners, the business community and the ATO. The data is widely used in external publications and can be calculated from income tax return data.

The industry benchmark detailed tables contain financial ratio benchmark data for each entity type and most business activities. We have used the ratios calculated for each business activity to produce two sets of mean average ratio values. The first set includes both profit making and loss making entities. It provides a benchmark figure for an entire business activity/industry division, group or class (one digit, three digit and four digit ANZSIC classifications respectively). The second set of ratios excludes businesses that return a loss, providing an industry average for 'profitable' businesses only.

Box 18.1 Financial ratios calculated¹

Gross profit ratio: total business income minus cost of sales, divided by total business income.

Net profit ratio: total business income minus total expenses, divided by total business income.

Wages to turnover ratio: salary and wages paid, divided by total business income.

¹ Calculated from income tax return labels.

ACTIVITY STATEMENT RATIOS

Activity statement data helps the ATO identify and address issues likely to have a negative impact on revenue as they emerge, rather than after they become ingrained business practice.

The industry benchmark detailed tables contain activity statement ratio benchmark data for each entity type and most business activities. As with the financial ratios, activity statement ratios calculated for each business activity have been used to produce two sets of mean average ratio values.

The first set includes both profit making and loss making entities. It provides a benchmark figure for an entire business activity/industry division, group or class (one digit, three digit and four digit ANZSIC classifications respectively). The second set of ratios excludes businesses that return a loss, providing an industry average for 'profitable' businesses only.

Box 18.2 Activity statement ratios calculated^{1,2}

Wages to sales ratio: Total salary, wages and other payments (W1), divided by total sales (G1).

Expenses to sales ratio: Non-capital purchases (G11) plus total salary, wages and other payments (W1), divided by total sales (G1).

Net GST to sales ratio: GST on sales or GST instalments (1A) minus GST on purchases (1B), divided by total sales (G1).

¹ Calculated from *business activity statement* (BAS) labels.

² Items in brackets refer to activity statement labels.

EXCLUSIONS AND CONSIDERATIONS

Including some cases, when analysing a large population, can produce misleading results. For example, income tax return labels used in the calculations may not have been completed or not completed correctly, or the ratios for an individual entity are exceptional and would distort the calculation of a true industry average.

In an attempt to improve the quality of the end product, we have developed and applied certain exclusion criteria. A list and explanation of these exclusion criteria is included in all the industry benchmark tables.

Despite applying these exclusion criteria, it is still important to recognise that the benchmarks developed are not definitive and should not be used in isolation. For example, there are a range of legitimate reasons why businesses vary from industry averages and, conversely, why businesses with ratios close to the industry average may have compliance problems or other financial difficulties. Also, an average ratio calculated using a large population is generally more reliable than one calculated from a small population.

Benchmarks are most useful as a guide when considered over a period of time or in conjunction with other information. For example, the age of the business and its performance over a number of years should also be taken into account when considering its viability.

SOURCE OF INDUSTRY BENCHMARKS

The data used to calculate the financial ratios for the business activities and entities was sourced from the 2009–10 individual, company, partnership and trust income tax returns processed by 31 October 2011.

The goods and services tax (GST) and pay as you go withholding liabilities for the 2009–10 financial year used for calculating activity statement ratios are sourced from activity statements, annual GST returns and annual GST information reports.

LIST OF FINANCIAL RATIOS DETAILED TABLES

Each detailed table contains gross profit ratios, net profit ratios and wages to turnover ratios for business activity/industry (ANZSIC) divisions, groups and classes listed in the ATO publication *Business industry codes 2010* (NAT 1827).

- ❗ Ratios may not be available in the financial ratio detailed tables for some business (ANZSIC 2006 – Business Register) group or class codes and/or entities because there is insufficient data to calculate the ratios, or the data cannot be shown for confidentiality reasons.

Each of the financial ratio tables is divided into three parts. Part A contains benchmark ratios calculated for broad industries (or ANZSIC divisions). The ratios for fine industry groups (or three digit ANZSIC groups) are presented in Part B and for fine industry classes (or four digit ANZSIC classes) in Part C.

Table IN1 Individual industry financial ratios, by business status, 2009–10 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all individuals. Each ANZSIC 2006 – Business Register division, group or class is classified by business status – that is, commenced business (businesses that just started) and established business. Therefore, industry ratios are calculated for commenced and established business entities.

Table IN2 Individual industry financial ratios, by total business income, 2009–10 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all individuals falling under different business activity/industry (ANZSIC 2006 – Business Register) divisions, groups or classes. Each ANZSIC 2006 – Business

Register division, group or class is broken down by total business income groupings.

Table CO1 Company industry financial ratios, by business status, 2009–10 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all companies. Each ANZSIC 2006 – Business Register division, group or class is classified by business status – that is, commenced business (businesses that just started) and established business. Therefore, industry ratios are calculated for commenced and established business entities.

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Table PA1 Partnership industry financial ratios, by business status, 2009–10 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all partnerships. Each ANZSIC 2006 – Business Register division, group or class is classified by business status – that is, commenced business (businesses that just started) and established business. Therefore, industry ratios are calculated for commenced and established business entities.

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This table shows gross profit, net profit and wages to turnover ratios for profitable and all partnerships falling under different business activity/industry (ANZSIC 2006 – Business Register) divisions, groups or classes. Each ANZSIC 2006 – Business Register division, group or class is broken down by total business income groupings.

Table TR1 Trust industry financial ratios, by business status, 2009–10 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all trusts. Each ANZSIC 2006 – Business Register division, group or class is classified by business status – that is, commenced business (businesses that just started) and established business. Therefore, industry ratios are calculated for commenced and established business entities.

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LIST OF ACTIVITY STATEMENT RATIO DETAILED TABLES

There are three main types of industry benchmark activity statement ratio detailed tables. They all contain expenses to sales ratios, wages to sales ratios, and net GST paid to sales ratios for business activity/industry (ANZSIC 2006 – Business Register) groups and classes listed in *Business industry codes 2010* (NAT 1827).

❗ Ratios may not be available for all entities because there is insufficient data to calculate the ratios, there are data quality problems or the data cannot be shown for confidentiality reasons.

Table INAS1 Individual industry activity statement ratios, by business status, 2009–10 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all individuals falling under different industry (ANZSIC 2006 – Business Register) groups or classes. Each ANZSIC 2006 – Business Register group or class is classified by business status – that is, commenced business (businesses that just started) and established business. Therefore, industry ratios are calculated for commenced and established business entities of all types.

Table INAS2 Individual industry activity statement ratios, by level of sales and profitability, 2009–10 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all individuals falling under different industry (ANZSIC 2006 – Business Register) groups or classes. Each ANZSIC 2006 – Business Register group or class is broken down by total sales (label G1 – BAS) income groupings.

Table COAS1 Company industry activity statement ratios, by business status, 2009–10 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all companies falling under different industry (ANZSIC 2006 – Business Register) groups or classes. Each ANZSIC 2006 – Business Register group or class is classified by business status – that is, commenced business (businesses that just started) and established business. Therefore, industry ratios are calculated for commenced and established business entities of all types.

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❗ To meet privacy regulations, statistics for some items may not be included in the tables.